Chapter V

THE FINANCE OF LITHUANIA

000 The financial aspect of Lithuania's reconstruction after 1918 involves a discussion of her currency, her state finance, and her public debt.

CURRENCY

436 Up to the time of the World War of 1914–18, Russian ruble notes circulated in Lithuania. As early as 1915, when the first German troops entered Lithuania, a decree was proclaimed which made German marks equally acceptable with the Russian rubles. (Exchange rate: 2.16 marks for 1 gold ruble.) [1]

●453 436 On April 17, 1915, by special decree, an institution under the name Darlehnkasse Ost (Loan Bank of the East) was created and made a special department of Ostbank für Handel und Gewerbe. The main function of this bank was to issue *Obost* rubles [2] and to serve as a state bank in the occupied region. The official exchange rate of the *Obost* rubles issued by the Darlehnkasse Ost was as follows: one *Obost* ruble equaled one Russian ruble or two German (or *Obost*) marks. By a decree of August 6, 1916, the German administration promised to redeem *Obost* rubles with genuine

[1] *Lietuvos Bankas, First Decade, 1922–1932*, Kaunas, 1932, p. 2.

[2] One *Obost* ruble equaled two *Obost* marks, one bank note having both inscriptions.

3: Simutis S-4 (no date) 1942 RB5 Lithuanians RB5

Russian rubles put into circulation by Darlehnkasse Ost. But on March 30, 1917, this promise was retracted and redemption by German marks was promised at the rate of two marks for one ruble.[3]

After the declaration of independence, February 16, 1918, because of unsettled conditions Lithuania was unable quickly to introduce her own bank notes. The Provisional Government signed with the Darlehnkasse Ost an agreement by which the notes were to remain in circulation until a Lithuanian bank of issue could be organized. The sums in circulation at that time, as estimated by Professor Rimka, are shown in Table 47.

TABLE 47

GERMAN OBOST NOTES IN CIRCULATION
1917–22

YEAR	NOTES IN CIRCULATION (*Millions of Obost marks*)	VALUE IN LITAS [4] (*Millions*)
1917	125.75	186.77
1918 (March 31)	165.65	327.30
1918 (Dec. 31)	290.90	363.62
1920 (July)	546.80	138.50
1921 (July)	779.80	101.70
1922 (July)	2,000.00	63.00
1922 (Sept.)	3,500.00	17.00

[4] One litas equals 0.150462 grams fine gold.

It may be observed that the number of notes in circulation increased very rapidly while their value in litas decreased. In September, 1922, the total of notes in circulation was more than ten times greater than on December 31, 1918, while at the same time their value in litas was only one

[3] *Ibid.*

3: Simutis S-4 (no date) 1942 RB5 Lithuanians RB5

436 twenty-first as great. In January, 1919, the rate of exchange was 8.27 marks to the dollar, while one year later, in February, 1920, it was 98.994 marks, and in the beginning of 1922, 200 marks. On October 1, 1922, the day redemption of the *Obost* marks commenced, one dollar equaled 1,650 marks; on October 2, 1,815 marks. Russian rubles were redeemed on October 1, 1922, at 0.004 litas.[4]

453 A special law for the establishment of Lietuvos Bankas (the Bank of Lithuania) was passed on August 11, 1922.[5] The financial basis of the bank is 12,000,000 litas capital stock consisting of 120,000 shares of 100 litas par value [456] each. Although Lietuvos Bankas, before Soviet occupation, was a private enterprise in its organization, it was under government control and the general director was appointed by the president of the republic upon recommendation of the Council of Ministers. The Law of Establishment of the Lietuvos Bankas grants a special concession to permit the issuance of notes for twenty years, which period may be prolonged by law.

436 652 648 With the first issue of litas notes on October 1, 1922, the redemption of the *Obost* marks at the market exchange rate was begun. The Russian rubles at that time were almost worthless, and the value of *Obost* marks was just a fraction of the original value. This caused a great loss to the population of Lithuania, wiping out everybody's savings and creating generally chaotic credit conditions. There is no question but that Germany was responsible for the inflation and loss in the value of *Obost* marks and that Lithuania had the right to demand reparations. Negotiations for that purpose were

[4] Kazys Sruoga, *Die Wirtschaft der Republik Litauen und ihre Notenemission*, Kaunas, 1930, pp. 15–18.

[5] *Lietuvos Bankas, First Decade, 1922–1932*, Kaunas, 1932, pp. 10–14; *V.Z. Nr. 199, par. 1347.*

3: Simutis S-4 (no date) 1942 RB5 Lithuanians RB5

started in March, 1922, in Kaunas. Reparation was sought for the compulsory introduction of *Obost* marks and the use of issuance rights from August, 1916, until November, 1919, when the German army finally withdrew. The loss to Lithuania was estimated at 5,383 million marks, which sum was demanded by the Lithuanian delegation. Due to the fact that the Germans refused to recognize these demands, negotiations were discontinued. They were resumed in Berlin in May, 1923.[6] These negotiations resulted in a treaty concluded on May 31, 1923, of which the first paragraph says: "Both contracting parties agree not to raise any claims against each other, originating from events of the World War." [7]

After three months of operation of Lietuvos Bankas—that is, on December 31, 1922—there were 30.38 million litas in circulation. The coverage in gold of the notes in circulation accounted for 50 percent and that in gold and foreign exchange for 109.1 percent. The amount of litas in circulation grew, while the coverage in gold decreased somewhat, but it was never less than the one-third prescribed by law. Thus on December 31, 1923, there were 60.07 million litas in circulation; in 1924, 92.98; in 1925, 81.92; in 1926, 86.79; and in 1927, 96.61.[8]

The issue activities of Lietuvos Bankas in later years are indicated by Table 48. At the end of 1938 the notes in circulation amounted to 141.70 million litas, exceeding the previous all-time high of 1930, while in April, 1939, it reached 181.65 millions, a new all-time peak. The coverage in gold

[6] A. Moravskis, *Lietuvos Finansai, Pinigai, kreditas ir bankai* Lietuvoje pries kara ir dabar, II dalis. (The Finance of Lithuania: Money, Credit and Banking in Lithuania before the War and at Present. Part II), Kaunas, 1925, pp. 33–35.

[7] Dailide, *op. cit.*, p. 199; *V.Z. Nr. 173, par. 1197.*

[8] *Lietuvos Bankas Bulletin*, Feb. 19, 1932, p. 18.

3: Simutis S-4 (no date) 1942 RB5 Lithuanians RB5

TABLE 48

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THE ISSUE ACTIVITIES OF LIETUVOS BANKAS
1928–39

YEAR ENDING DEC. 31	BANK NOTES IN CIRCULATION (*Million litas*)	GOLD RESERVE (*Million litas*)	FOREIGN BILLS (*Million litas*)	PERCENTAGE OF COVERAGE IN GOLD AND FOREIGN BILLS
1928	84.77	34.27	43.62	91.9
1929	94.83	35.08	78.48	119.8
1930	117.16	39.39	86.32	107.3
1931	108.95	50.14	33.17	76.5
1932	96.21	49.07	15.96	67.6
1933	89.92	52.00	15.34	76.8
1934	88.24	52.14	8.38	68.6
1935	103.50	36.14	9.91	44.5
1936	110.35	73.10	4.08	69.9
1937	116.56	79.04	1.87	69.4
1938	141.70	64.75	4.83	49.1
1939	165.93	57.71	2.50	37.1

and foreign bills was comparatively high, being 49.1 percent.

436 The highest number of notes in circulation and the lowest coverage were reached in November, 1939. This situation was largely due to the disturbed economic conditions in Lithuania in that year. It will be recalled that in March, 1939, Lithuania was forced to give up her only port, Klaipeda. This transaction was executed in great haste, under the pressure of the German war machine, as a result of which it became necessary to support and furnish with food, shelter, and work about 15,000 refugees.

[167] A few months later over 100,000 refugees from Poland poured into Lithuania, as a result of the war between Germany and Poland. Undoubtedly this circumstance caused a great drain on gold and foreign exchange reserves.

5. The Situation of Credit Institutions.

● 453 The Lithuanian credit institutions can be classified in the following groups:

1. Žemės Bankas (Land Bank). It was founded in 1924 with 50 000 000 litas share-capital, of which 48 000 000 litas was taken up by the Government. Its object consists in the promotion of agriculture through the granting of mortgage loans. Together with the Lietuvos Bankas it is the second largest public credit establishment in the country.

The most important balance items for the last ten years are collated in the following table (in million litas):

Year Dec. 31	Balance Amounts	Deposits & Current A/cs	Loans & Discounts	Including Mortgage Loans
1928	49.84	14.21	39.54	23.11
1929	66.98	11.33	52.99	30.00
1930	95.17	17.12	81.33	54.46
1931	122.29	16.93	110.06	83.49
1932	125.30	21.35	115.32	91.94
1933	135.35	19.88	121.20	102.39
1934	141.95	21.91	125.47	107.01
1935	140.40	22.54	127.68	112.39
1936	149.39	22.18	132.57	116.79
1937	158.07	34.17	144.28	121.74

The mortgage business was properly speaking more widely expanded after 1930, since when the Žemės Bankas, under the amended statutes, has been granted the right of mortgage-deeds issue. The circulation of these amounted at the end of 1937 to 73 500 000 litas. The quotation of the recently issued VII Series at 4.5% amounts to 89—90 per 100 face value.

The course of the balance items quoted in the foregoing table shows that the crisis certainly restricted the development of the operations of the Žemės Bankas without, however, entailing any losses.

A circumstance that was largely instrumental in enabling the Bank to bridge over the crisis was that through the Government the sum of 40 000 000 litas from the Match Monopoly or the so-called Swedish loan was placed at its disposal. The credit business, and inter alia chiefly mortgage

loans show an uninterrupted rising tendency. Since 1928, the amount of the latter has increased sixfold, and since 1931 it has grown by nearly 50%. 453

The rate of interest for mortgage loans amounted in 1930 to 7½%; in 1933 to 6%; in 1935 to 5%; and since July 1, 1936, to 4%. In connexion with the raising of the rate of interest on mortgage-deeds in 1937 to 4½%, the rate of interest on rural credits was also increased to 5%, and on urban mortgage loans to 5½%.

II. To the second group belong 13 commercial banks and 15 associations of mutual credit. Among them 11 banks are organized as joint-stock companies with a capital-stock of 30 700 000 litas. The most important are: Ūkio Bankas (with 15 000 000 litas capital-stock); Kooperacijos Bankas, Komercijos Bankas, Kredito Bankas, Tarptautinis Bankas, Jüdische Zentralbank - all in Kaunas; and Klaipėdos Bankas, Landschaftsbank, Raiffeisenbank A. G. and Tautinis Lietuvių Bankas in Memel.

The most important balance items of the Kaunas credit institutions from 1928 to 1937 are shown in the following table (in million litas):

Year Dec. 31	Capital-stock	Balance Amounts	Deposits & Current A/cs.	Loans & Discounts
1928	26.50	119.57	56.82	74.06
1929	27.28	134.92	76.99	80.41
1930	27.29	156.74	98.27	108.40
1931	27.81	137.57	73.02	86.87
1932	26.93	125.55	72.98	75.75
1933	29.24	126.79	67.21	80.53
1934	28.89	124.11	61.59	80.64
1935	28.85	116.15	54.03	75.99
1936	29.06	133.02	68.84	85.06
1937	29.05	153.35	83.23	103,27

The corresponding figures for the Memel credit establishments are as follows:

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Year Dec. 31	Capital-stock	Balance Amounts	Deposits & Current A/cs.	Loans & Discounts
1928	4.56	53.33	30.46	39.04
1929	4.89	54.49	35.80	41.11
1930	5.00	62.60	43.27	48.38
1931	4.79	62.44	32.06	51.83
1932	4.30	52.23	27.80	41.61
1933	4.29	46.83	22.31	35.52
1934	4.51	40.38	15.23	31.46
1935	4.04	35.43	12.27	29.08
1936	3.99	41.30	14.67	33.47
1937	3.87	44.73	19.73	37.08

On the basis of both the foregoing tables, we can draw the following conclusions:

(1) The capital-stock of the Kaunas institutions has been stationary since 1933, but in comparison with 1928 shows a slight growth. The capital-stock of the Memel establishments has sunk below the level of 1928.

(2) The last two years have entirely adjusted the crisis losses of the Kaunas banks, while the Memel institutions also show a revival though not at the same tempo. The deposits there more particularly remain far behind the pre-crisis position.

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III. The third group consists of the credit cooperative societies, which are chiefly spread over the rural districts and possess an old tradition. The first cooperative society was already founded in 1873, and until the World War there were in Lithuania under Russian alien domination 207 credit cooperative societies with 88 900 active membres.

The activity of the credit cooperative societies, interrupted by the World War, was speedily resumed in independent Lithuania, although the erstwhile organizations had been destroyed and new foundations had to be effected. The Government also contributed largely to the expansion of the credit cooperative societies, in which context, since 1930, long-term loans at 3% interest have been granted from State resources.

The development of the activity of the credit cooperative societies, with the exception of the Memel Territory, since 1928 is shown in the following table:

453 152 IV. To the fourth and last group belong the State savings banks in Lithuania Major and the savings banks of the Memel Territory. The following tables elucidate their activity:

152 **A. The Activity of the State Savings Banks (in million litas):**

Year Dec. 31	Balance Amounts	Savings Deposits	Loans
1928	3.85	0.86	3.04
1929	5.66	2.07	4.76
1930	12.52	11.00	11.98
1931	26.82	24.80	25.06
1932	36.70	34.17	31.73
1933	41.36	38.75	35.03
1934	46.69	43.12	37.84
1935	47.21	42.90	35.68
1936	57.38	52.29	32.79
1937	66.34	60.12	30.37

453 **B. The Activity of the Savings Banks of the Memel Territory (in million litas):**

Year Dec. 31	Balance Amounts	Savings Deposits	Loans
1928	11.71	9.23	4.21
1929	14.04	11.64	4.86
1930	19.99	15.65	6.81
1931	24.01	18.65	8.09
1932	30.24	23.96	9.06
1933	26.58	19.32	6.48
1934	23.19	15.26	6.73
1935	20.39	11.87	6.57
1936	21.61	13.82	5.70
1937	28.12	18.61	5.32

152 The percentage distribution of the savings deposits in the State savings banks according to vocation is also characteristic of the growing well-being of the working population. The figures are as under:

6: Anonymous U-4, 5 (no date) 1938 RB5 Lithuanians RB5

	1935, Jan. 1	1936, Jan. 1	1937, Jan. 1	1938, Jan. 1
Public Institutions	40.64	44.85	38.87	33.6
Officials and Employees	13.09	13.11	14.72	16.6
Farmers	12.52	12.67	14.40	15.6
Merchants & Industrialists	11.22	8.93	8.64	9.0
Liberal Professions	7.99	7.90	7.50	8.2
Workers	2.49	2.53	3.01	3.7

* * *

Summarizing the figures of the Lietuvos Bankas and the Žemės Bankas, the commercial banks and the associations of mutual credit of Kaunas and Memel, the credit cooperative societies and the Raiffeisen loan funds banks, as also of the State savings banks and the savings banks of the Memel Territory, we obtain the following result of the development of deposits and loans in all Lithuanian credit institutions during the last ten years (in million litas):

Dec. 31	Deposits	Loans
1928	225.46	304.38
1929	282.83	333.04
1930	345.73	437.83
1931	302.04	479.62
1932	291.20	449.48
1933	278.40	446.51
1934	269.54	461.95
1935	229.60	451.48
1936	290.22	467.35
1937*)	347.60	501.38

These figures show that both deposits and loans in 1937 again reached and exceeded the pre-crisis position (1930—31). Whereas, however, the deposits in conformity with the contingent situation of economy in the crisis years have suffered a severe setback, the fluctuations of the loans were negligible,

*) Without Raiffeisen loan banks of Memel Territory.

which is attributable to the intervention of the Government on behalf of agricultural credits.

In connexion with the consolidation of the credit situation and thanks to the initiative of the Lietuvos Bankas, private discount has also materially decreased. In 1929 it still fluctuated between 14—18%. At the end of 1930 the banks decided that the rate of interest should not rise above 12%; while today it amounts to 8%. Moreover, in accordance with a legal enactment (Government Gazette No. 432) private discount may not exceed the official bank rate by more than three points.

On the basis of the above cited balance items of the separate categories of the credit institutions, we may affirm that the overwhelming portion of the credits pertains to agriculture; the credits for trade and industry amount to approximately one-third of the total sum, and are without exception short-term. In view of this and in connexion with the rapid growth of industry, the necessity is ever more and more being felt for a banking institution which, through the provision of long-term credits, would promote the investment activity of industry.

* * *

The consolidation of the credit situation is also characterized by the statistics of bills of exchange protests and the legal compulsory auction sales. The following comparative table embodies the data for the last eight years:

	1930	1931	1932	1933	1934	1935	1936	1937
Total bills of exchange in circulation, in million litas	708.24	760.52	546.52	463.21	490.81	423.40	410.43	472.03
Amount of protested bills, in million litas	40.06	67.51	71.74	39.34	32.48	23.54	13.97	12.98
Percentage share of protests in sum of bill circulation	5.7	8.9	13.1	8.5	6.6	5.6	3.4	2.7
Number of compulsory auction sales of movable property	636	794	1 961	3 104	2 768	2 471	1 621	1 084
Amount of debts in million litas	1.48	1.83	3.33	3.81	2.86	3.83	2.33	1.06
Percentage of debt cover	27	35	27	27	22	14	19	27

The number of bill protests, both according to separate items and the total value and according to the percentage ratio

6: Anonymous U-4, 5 (no date) 1938 RB5 Lithuanians RB5

APPENDIX

ECONOMIC FIGURES

433

	1929	1930
INDUSTRY:		
1. Total number of medium and wholesale undertakings (of 5 employed persons upwards)	1 044	1 051
2. Total number of employed workers	19 637	19 334
3. Total figure of engine power in H. P.	.	.
4. Production Index	100.0	108.3
TRADE:		
474 1. Total number of larger undertakings (Trade in the narrower sense I — III 473 Corp)	14 255	14 224
439 2. Railway goods traffic 1 000 tons	2 079	1 993
3. Price Index	100	87
4. Foreign Trade Turnover:		
(a) Million Litas	636.3	646.2
(b) Volume	100.0	116.7
5. Cooperative Trade Turnover, million litas	108.6	111.9
FINANCE AND CREDIT CONDITIONS:		
652 1. Monetary circulation, in million litas	102.3	117.2
452 2. State Revenue, in million litas	338.5	347.7
● 453 3. State Expenditure, in million litas	269.9	320.6
4. Deposits of the Credit Institutions, in million litas	282.8	345.7
5. Loans of the Credit Institutions, in million litas	333.0	437.8
6. Total Sums of Bills of Exchange Protests, in million litas	49.1	40.1
7. Discount Rate of the Lietuvos Bankas	7	7

OF LITHUANIA.

1931	1932	1933	1934	1935	1936	1937
1 049	1 105	1 108	1 118	1 136	1 135	1 247
21 053	19 743	20 660	22 282	23 344	25 844	31 689
70 038	84 804	95 751	94 585	105 349	109 634	125 157
140.7	153.7		166.5	185.9	244.2	272.0
14 141	13 590	12 981	12 572	12 034	12 054	12 445
2 164	1 599	1 722	1 853	2 003	2 193	2 352
74	61	54	52	46	46	53
551.1	356.1	302.4	285.9	280.8	346.5	420.9
128.3	106.6	102.2	103.2	103.9	125.2	139.3
127.8	111.3	105.8	111.3	149.4	185.2	203.6
127.1	112.7	105.8	101.1	111.4	124.1	131.9
340.1	292.0	256.9	264.4	279.9	302.8	329.9
335.3	278.2	249.7	251.8	276.9	287.7	318.2
302.0	291.2	278.4	269.5	229.6	290.2	347.6
479.6	449.5	446.5	461.9	451.5	467.3	501.4
67.5	71.7	39.3	32.5	23.5	13.9	12.9
8½	7	7	6	6	5½	5½